

Comptroller's Quarterly

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April 2015

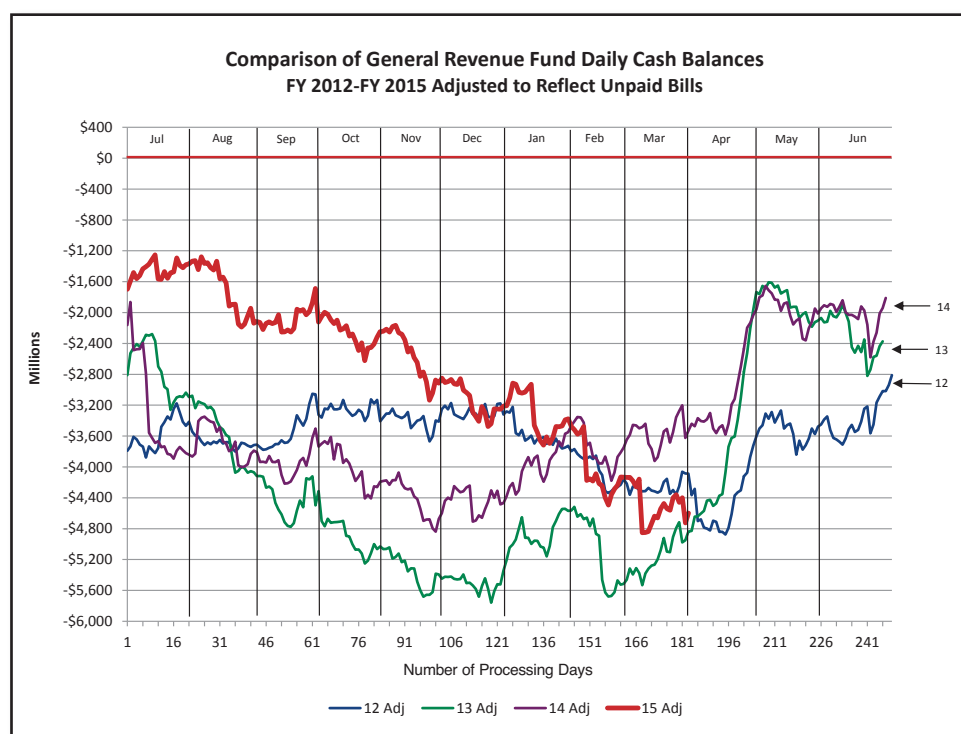
INCOME TAX RATE CUTS EXACERBATE DECLINE IN REVENUES

January 1st began the rollback of the temporary income tax increase with individual tax rates declining from 5.0 percent to 3.75 percent and the corporate rate decreasing from 7.0 percent to 5.25 percent. As a result, by the end of the third quarter of fiscal year 2015 income tax revenues had declined \$774 million or 5.6 percent. With the continuing declines in revenues from transfers in and federal sources, General Funds base revenues as of the end of the third quarter were down \$1.471 billion.

At the end of March 2015, the Illinois Office of the Comptroller (IOC) was holding \$5.687 billion in General Funds payables, an increase of \$1.327 billion from the end of the second quarter. The backlog of bills at the IOC accounts for only what has been submitted and not what is held at other agencies. When estimates of bills being held at state agencies are included, the state's total backlog is approximately \$7.8 billion.

The General Funds backlog of unpaid bills at the end of March totaled \$5.687 billion and consisted of \$4.700 billion on hold in the General Revenue Fund, \$568 million in the Education Assistance Fund and \$419 million in the Common School Fund. This backlog is \$3.283 billion higher than at the end of fiscal year 2014 and is \$1.228 billion higher than this time last year.

In the last week of March, the General Assembly passed and the Governor signed Public Acts 99-001 and 99-002 which will impact the fiscal outlook for the remainder of the year. These acts



revise the fiscal year 2015 spending plan by reducing various appropriation levels and increasing appropriations where there were insufficient levels, as well as authorizing transfers of approximately \$1.3 billion to the General Revenue Fund from other funds in the state treasury.

The chart of adjusted General Revenue Fund (GRF) balances on March 31, 2015 shows a negative balance of \$4.599 billion. At this time last year, the adjusted GRF balance was a negative \$3.440 billion. This does not include the other General Funds which have a slightly higher backlog than last year.

Base Revenues

The decrease in income tax rates beginning in January resulted in a decline in income tax collections. With the additional decreases in transfers in and federal revenues, revenues experienced a significant decline through the third quarter and more than offset the growth in sales taxes and all other sources. General Funds total base revenue have decreased year-to-date \$1.471 billion, or 5.7 percent. Other factors impacting the state's base revenues so far this year include:

- **INCOME TAX:** Individual income tax receipts fell \$477 million or 4.1 per-

cent through the third quarter of fiscal year 2015, while corporate income tax revenues decreased by \$297 million or 14.3 percent. It should be noted that \$182 million of income tax revenues were deposited into two new funds this quarter to be dedicated to education and human services programs.

- **SALES TAX:** Through nine months, sales tax revenues increased by \$302 million or 5.3 percent. However, the pace of growth slowed down in the third quarter as sales taxes grew by 3.4 percent this quarter, down from 6.2 percent growth in the first half of the year.
- **TRANSFERS:** Reduced transfers from the Income Tax Refund Fund were the leading factor in the decrease in transfers in. While \$397 million was transferred from this fund last year, only \$63 million was transferred in August this year. Lottery Fund transfers were up \$8 million and riverboat gambling transfers decreased \$27 million. It is also important to note that those totals do not include transfers from the Budget Stabilization Fund.
- **FEDERAL REVENUE:** Federal revenues decreased \$663 million, or 25.4 percent, so far in fiscal year 2015. The decline is due to a decrease in the payment from the General Funds of Medicaid bills eligible for reimbursement.
- **OTHER RECEIPTS:** All other state receipts are up \$95 million, or 4.1 percent from the previous fiscal year. Specifically, inheritance tax receipts increased \$55 million and insurance taxes grew \$13 million.

Base Expenditures

General Funds base spending – payments released by the IOC – decreased by \$1.587 billion, or 6.0 percent, through the third quarter of fiscal year 2015. Spending decreased by \$401 million in January, decreased \$437 million in February, and decreased \$300 million in

March. However, vouchers presented by the state agencies were up \$1.166 billion, or 5.0 percent, so far this year.

- **SOCIAL SERVICES:** Vouchers presented by the Department of Healthcare and Family Services (primarily for Medicaid spending) was up \$832 million, or 17.9 percent, through the third quarter. Vouchers presented by the Department of Human Services were up \$144 million or 5.9 percent through March, and Department of Children and Family Services expenditures were up \$9 million (1.6 percent) after nine months. Department on Aging vouchers were down \$38 million (5.2 percent) for the year.
- **EDUCATION:** Vouchers presented by the State Board of Education were up \$48 million, or 1.0 percent through March. General Funds appropriations for General State Aid for schools decreased this fiscal year, but \$200 million was appropriated from a new fund scheduled to receive a portion of the income tax. Vouchers presented by higher education agencies, excluding the retirement system, were down \$40 million or 2.2 percent.
- **RETIREMENT SYSTEMS:** Teachers Retirement System (TRS) vouchers were up \$31 million through March. The University Retirement System expenditures increased \$170 million through nine months, but appropriations are up only \$35 million, so the spending will only increase by that amount for the year. Vouchers from the State Employees Retirement System were up \$42 million.
- **ALL OTHER:** Central Management Services had the largest decrease among the major agencies of \$45 million as it submits vouchers requesting transfers to the fund to pay state employee health insurance bills at a more even pace this year.
- **TRANSFERS OUT:** Transfers out for nine months of fiscal year 2015 decreased by \$139 million, or 3.8 percent, when compared to last year.

What Lies Ahead

In the fourth quarter of the fiscal year, the impact of the spending changes and fund included in P.A. 99-001 and P.A. 99-002 should begin to appear. Fund “sweep” revenues in P.A. 99-002 should help Illinois pay down part of the Medicaid backlog and thereby generate additional federal matching revenues. These added revenues probably will not offset the decrease in income tax revenues and total fiscal year 2015 General Funds revenues are still expected to decline.

On the spending side, P.A. 99-001 increased General Funds appropriations to resolve funding problems for items such as child-care programs and correctional officers’ payroll. It also included reductions of 2.25 percent from many General Funds appropriations lines to partially offset the appropriation increases. Overall, General Funds appropriations will be up from the previous levels, but taken together with the fund sweeps, is expected to reduce the fiscal year 2015 deficit from original projections.

While the legislation helped to address the budget deficit for fiscal year 2015, it did not solve the financial issues confronting the state. It appears likely that the backlog at the end of the fiscal year will surpass the backlog at the end of fiscal year 2014. Use of fund sweeps, a one-time revenue source, will require additional revenues or budget cuts next fiscal year.

Crafters of the fiscal year 2016 budget are facing significant challenges as the full impact of the drop in income tax rates impacts state revenues. Income tax revenues are projected to decline by \$2 billion next year. The combination of reductions in income tax revenues, compensating for the one time nature of this year’s funds sweep, increases in statutory pension contributions, and other spending pressures, have created a very large budgetary hole that must be addressed before the legislature adjourns this year. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	March		Change	Nine Months		Change	
	2014	2015		FY 2014	FY 2015	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 138	\$ 204	\$ 66	\$ 154	\$ 74	\$ (80)	(51.9) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,443	\$ 1,186	\$ (257)	\$ 11,680	\$ 11,203	\$ (477)	(4.1) %
Corporate	559	483	(76)	2,072	1,775	(297)	(14.3)
Total, Income Taxes	2,002	1,669	(333)	13,752	12,978	(774)	(5.6)
Sales Taxes	587	601	14	5,675	5,977	302	5.3
Other Sources:							
Public Utility Taxes	114	124	10	774	764	(10)	(1.3)
Cigarette Taxes	30	35	5	265	264	(1)	(0.4)
Inheritance Tax (gross)	17	36	19	185	240	55	29.7
Liquor Gallonage Taxes	11	11	0	125	126	1	0.8
Insurance Tax and Fees	33	37	4	207	220	13	6.3
Corporation Franchise							
Tax and Fees	16	15	(1)	159	158	(1)	(0.6)
Investment Income	2	2	0	14	18	4	28.6
Cook County IGT	0	0	0	120	150	30	25.0
Other	105	46	(59)	459	463	4	0.9
Total, Other Sources	328	306	(22)	2,308	2,403	95	4.1
Total, Cash Receipts	\$ 2,917	\$ 2,576	\$ (341)	\$ 21,735	\$ 21,358	\$ (377)	(1.7) %
Transfers In:							
Lottery Fund	\$ 67	\$ 68	\$ 1	\$ 470	\$ 478	\$ 8	1.7 %
State Gaming Fund	33	29	(4)	274	247	(27)	(9.9)
Other Funds	81	82	1	900	488	(412)	(45.8)
Total, Transfers In	\$ 181	\$ 179	\$ (2)	\$ 1,644	\$ 1,213	\$ (431)	(26.2) %
Total, State Sources	\$ 3,098	\$ 2,755	\$ (343)	\$ 23,379	\$ 22,571	\$ (808)	(3.5) %
Federal Sources	\$ 320	\$ 333	\$ 13	\$ 2,612	\$ 1,949	\$ (663)	(25.4) %
Total, Base Revenues	\$ 3,418	\$ 3,088	\$ (330)	\$ 25,991	\$ 24,520	\$ (1,471)	(5.7) %
Short Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	275	275	0	0.0
Total, Revenues	\$ 3,418	\$ 3,088	\$ (330)	\$ 26,266	\$ 24,795	\$ (1,471)	(5.6) %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 590	\$ 854	\$ 264	\$ 4,636	\$ 5,468	\$ 832	17.9 %
State Board of Education	786	861	75	4,953	5,001	48	1.0
Human Services	294	175	(119)	2,423	2,567	144	5.9
Teachers Retirement	295	298	3	2,655	2,686	31	1.2
University Retirement System	126	258	132	998	1,168	170	17.0
All Other Higher Education	109	82	(27)	1,830	1,790	(40)	(2.2)
Corrections	99	91	(8)	973	984	11	1.1
State Employees Retirement System	92	95	3	823	865	42	5.1
Central Management Services	1	141	140	1,372	1,327	(45)	(3.3)
Children and Family Services	74	70	(4)	556	565	9	1.6
Aging	70	67	(3)	725	687	(38)	(5.2)
State Police	21	17	(4)	189	226	37	19.6
All Other	181	114	(67)	1,315	1,280	(35)	(2.7)
Total	\$ 2,738	\$ 3,123	\$ 385	\$ 23,448	\$ 24,614	\$ 1,166	5.0 %
Regular Transfers Out	376	341	(35)	3,619	3,480	(139)	(3.8)
Prior Year Adjustments	(1)	(1)	0	(58)	(10)	48	(82.8)
Vouchers Payable Adjustment	274	(376)	(650)	(758)	(3,420)	(2,662)	N/A
Total, Base Expenditures	\$ 3,387	\$ 3,087	\$ (300)	\$ 26,251	\$ 24,664	\$ (1,587)	(6.0) %
Transfers to Repay Budget Stabilization	0	0	0	0	0	0	0.0
Transfers to Repay Interfund Borrowing	0	0	0	0	0	0	0.0
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	3,387	3,087	(300)	26,251	24,664	(1,587)	(6.0)
AVAILABLE CASH BALANCE, ENDING	\$ 169	\$ 205	\$ 36	\$ 169	\$ 205	\$ 36	21.3 %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	March		Change	Nine Months		Change	
	2014	2015		FY 2014	FY 2015	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 44	\$ 101	\$ 57	\$ 35	\$ 12	\$ (23)	(65.7) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 1,338	\$ 1,099	\$ (239)	\$ 10,828	\$ 10,386	\$ (442)	(4.1) %
Corporate	518	448	(70)	1,920	1,645	(275)	(14.3)
Total, Income Taxes	1,856	1,547	(309)	12,748	12,031	(717)	(5.6)
Sales Taxes	440	451	11	4,264	4,490	226	5.3
Other Sources:							
Public Utility Taxes	106	116	10	708	701	(7)	(1.0)
Cigarette Taxes	19	25	6	190	194	4	2.1
Inheritance Tax (gross)	17	36	19	185	240	55	29.7
Liquor Gallonage Taxes	11	11	0	125	126	1	0.8
Insurance Tax and Fees	33	37	4	207	220	13	6.3
Corporation Franchise Tax and Fees	16	15	(1)	159	158	(1)	(0.6)
Investment Income	2	2	0	13	18	5	38.5
Cook County IGT	0	0	0	120	150	30	25.0
Other	105	46	(59)	456	460	4	0.9
Total, Other Sources	309	288	(21)	2,163	2,267	104	4.8
Total, Cash Receipts	\$ 2,605	\$ 2,286	\$ (319)	\$ 19,175	\$ 18,788	\$ (387)	(2.0) %
Transfers In	81	82	1	898	486	(412)	(45.9)
Total, State Sources	\$ 2,686	\$ 2,368	\$ (318)	\$ 20,073	\$ 19,274	\$ (799)	(4.0) %
Federal Sources	\$ 320	\$ 333	\$ 13	\$ 2,612	\$ 1,949	\$ (663)	(25.4) %
Total, Base Revenues	\$ 3,006	\$ 2,701	\$ (305)	\$ 22,685	\$ 21,223	\$ (1,462)	(6.4) %
Short Term Borrowing	0	0	0	0	0	0	0.0
Transfer from Budget Stabilization Fund	0	0	0	275	275	0	0.0
Total, Revenues	\$ 3,006	\$ 2,701	\$ (305)	\$ 22,960	\$ 21,498	\$ (1,462)	(6.4) %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 590	\$ 854	264	\$ 4,636	5,468	832	17.9
State Board of Education	382	449	67	1,712	1,701	(11)	(0.6)
Human Services	294	175	(119)	2,423	2,567	144	5.9
University Retirement System	126	257	131	998	1,165	167	16.7
All Other Higher Education	65	49	(16)	468	447	(21)	(4.5)
Corrections	99	91	(8)	973	984	11	1.1
State Employees Retirement System	92	95	3	823	865	42	5.1
Central Management Services	1	141	140	1,372	1,327	(45)	(3.3)
Children and Family Services	74	70	(4)	556	565	9	1.6
Aging	70	67	(3)	725	687	(38)	(5.2)
State Police	21	17	(4)	189	226	37	19.6
All Other	184	120	(64)	1,345	1,322	(23)	(1.7)
Total	\$ 1,998	\$ 2,385	\$ 387	\$ 16,220	\$ 17,324	\$ 1,104	6.8 %
Regular Transfers Out	844	810	(34)	7,657	7,231	(426)	(5.6)
Prior Year Adjustments	(1)	(1)	0	(57)	(10)	47	(82.5)
Vouchers Payable Adjustment	167	(493)	(660)	(867)	(3,136)	(2,269)	N/A
Total, Base Expenditures	\$ 3,008	\$ 2,701	\$ (307)	\$ 22,953	\$ 21,409	\$ (1,544)	(6.7) %
Transfers to Repay Budget Stabilization	0	0	0	0	0	0	0.0
Transfers to Repay Interfund Borrowing	0	0	0	0	0	0	0.0
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	3,008	2,701	(307)	22,953	21,409	(1,544)	(6.7)
AVAILABLE CASH BALANCE, ENDING	\$ 42	\$ 101	\$ 59	\$ 42	\$ 101	\$ 59	140.5 %